

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 DODE-00 PA-02 PRS-01 L-03 DOE-11 SOE-02  
AGRE-00 ITC-01 INT-05 /118 W  
-----113468 011031Z /13/46

R 310610Z JAN 78  
FM AMEMBASSY KABUL  
TO SECSTATE WASHDC 6328

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CORRECTED COPY (TEXT)

E.O. 11652: N/A  
TAGS: EINV, EIND, EFIN  
SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: 77 STATE 244738

1. SUMMARY. PRIVATE INVESTMENT, INCLUDING FOREIGN INVESTMENT, IS ENCOURAGED BY THE GOVERNMENT OF AFGHANISTAN (GOA). THERE IS FAIRLY GOOD POTENTIAL HERE FOR INVESTMENT IN SMALL AND MEDIUM-SCALE INDUSTRIES, BUT OBSTACLES SUCH AS A TURGID GOVERNMENT BUREAUCRACY, ECONOMIC BACKWARDNESS, AND TRANSPORTATION DIFFICULTIES HAVE LIMITED THE ATTRACTIVENESS OF AFGHANISTAN TO INVESTORS. AFGHANISTAN IS FINANCIALLY SOUND WITH ADEQUATE RESOURCES FOR DEVELOPMENT, BUT ECONOMIC GROWTH HAS BEEN SLOW AND FITFUL. END SUMMARY.

2. GOVERNMENT ATTITUDE TOWARD PRIVATE INVESTMENT. THE 1974 FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW GOVERNS INVESTMENT IN AFGHANISTAN. ALTHOUGH THE INVESTMENT LAW HAS SOME FAILINGS, ITS OSTENSIBLE PURPOSE IS TO ENCOURAGE  
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PRIVATE INVESTMENT. THE INVESTMENT LAW REQUIRES 51 PERCENT AFGHAN OWNERSHIP OF ALL ENTERPRISES.

3. HOWEVER, DESPITE THE GOA'S OVERT POLICY, A CLIMATE OF UNCERTAINTY AND HESITATION PREVAILS. SOME OF THE FACTORS INHIBITING INVESTORS ARE: SLOW AND TURGID BUREAUCRATIC PROCESSES; THE FREQUENTLY

ARBITRARY NATURE OF GOA ENFORCEMENT OF LAWS, PARTICULARLY WITH REGARD TO TAX ASSESSMENT AND COLLECTION; AND THE BANK AND NATIONALIZATION ACT OF 1975, WHICH RAISED A SPECTRE OF POSSIBLE NATIONALIZATION OF OTHER SECTORS OF THE ECONOMY. THE GOA HAS RESERVED LARGE-SCALE INVESTMENTS FOR THE PUBLIC SECTOR, WITH MEDIUM-AND SMALL-SCALE INVESTMENTS ALLOCATED TO THE PRIVATE SECTOR. THE RESULT IS AND ALMOST STAGNANT PRIVATE SECTOR, WITH LITTLE GROWTH IN INVESTMENT, EITHER FOREIGN OR DOMESTIC.

4. ECONOMIC FACTORS. AFGHANISTAN IS LISTED BY THE UNITED NATIONS AS ONE OF THE LEAST-DEVELOPED OF THE DEVELOPING COUNTRIES. LEVELS OF LITERACY, PUBLIC HEALTH, AND PER CAPITA NATIONAL INCOME ARE AMONG THE LOWEST IN THE WORLD. APPROXIMATELY 85 PERCENT OF THE POPULATION IS RURAL, THE MAJORITY BEING SUBSISTENCE FARMERS OR LIVESTOCK HERDERS. ALTHOUGH THE COUNTRY HAS SUCCESSFULLY AVOIDED ANY MAJOR ECONOMIC CRISIS IN THE LAST FEW YEARS, AND STANDS TODAY ON A SOUND FINANCIAL FOOTING, ECONOMIC GROWTH HAS BEEN SLOW AND FITFUL.

5. THE OUTLOOK FOR THE FUTURE IS FAIRLY GOOD. POPULATION PRESSURE ON THE LAND IS NOT HEAVY; DOMESTIC RESOURCES AND FOREIGN ASSISTANCE FOR ECONOMIC UNCLASSIFIED

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DEVELOPMENT ARE PLENTIFUL; AND A NUMBER OF NATURAL RESOURCES, INCLUDING IRON, COPPER, AND, POSSIBLY, PETROLEUM, ARE KNOWN TO EXIST AND MAY PROVE FEASIBLE TO DEVELOP. THE MAJOR OBSTACLE TO MORE RAPID DEVELOPMENT HAS BEEN THE INABILITY OF THE GOA TO IMPLEMENT EFFICIENTLY ITS DEVELOPMENT PLANS -- DUE IN LARGE PART TO SHORTAGES OF TRAINED ADMINISTRATIVE AND TECHNICAL PERSONNEL. THE POTENTIAL FOR PRIVATE SECTOR PARTICIPATION IN ECONOMIC DEVELOPMENT IS NOT BEING FULFILLED.

6. INCENTIVES TO INVESTORS. THE INVESTMENT LAW PROVIDES FOR EXEMPTION FROM CORPORATE INCOME TAXES FOR FOUR YEARS AND FOR PERSONAL INCOME TAXES AND TAXES ON CORPORATE DIVIDENDS FOR UP TO SEVEN YEARS FOLLOWING THE ESTABLISHMENT OF AN INDUSTRY. TARIFF EXEMPTIONS AND REDUCTIONS ARE GRANTED ON CAPITAL GOODS, SPARE PARTS, AND RAW MATERIALS. HOWEVER, INDUSTRIES NO LONGER COVERED BY THESE INCENTIVES ENCOUNTER FREQUENT PROBLEMS WITH TAX ASSESSMENTS AND A TARIFF CODE THAT IS NOT ALWAYS FAVORABLE TO DOMESTIC INDUSTRY.

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7. LABOR PRACTICES. LABOR IS INEXPENSIVE IN AFGHANISTAN WITH WAGES AVERAGING LESS THAN \$2 PER DAY. THERE ARE NO LABOR UNIONS AND LABOR PRACTICES ARE NOT WELL-DEFINED NOR UNIFORMLY APPLIED. THERE IS A SHORTAGE OF SKILLED PERSONNEL. UNSKILLED LABOR IS USUALLY ABUNDANT, BUT SUBSTANTIAL MIGRATION OF AFGHAN WORKERS TO IRAN AND OTHER OPEC COUNTRIES IS CAUSING SEASONAL AND LOCAL LABOR SHORTAGES IN SOME AREAS.

8. CHANGES IN INVESTMENT POLICY. SIGNIFICANT CHANGES IN THE GOA'S INVESTMENT POLICY ARE NOT LIKELY, IN THE SHORT RUN. THE GOA IS MOVING SLOWLY TO FACILITATE INVESTMENT BY REDUCING BUREAUCRATIC RED TAPE AND INCREASING THE AVAILABILITY OF CAPITAL AT MODERATE INTEREST RATES.

9. PRESENT U.S. INVESTMENT AND FUTURE POTENTIAL. FOUR U.S. INVESTMENTS IN AFGHANISTAN AT PRESENT HAVE A BOOK VALUE OF ABOUT \$1.5 MILLION. SEVERAL OTHER PROPOSED U.S. INVESTMENTS ARE IN VARIOUS STAGES OF CONSIDERATION.

10. AS AFGHANISTAN HAS A VERY LIMITED INDUSTRIAL BASE, OPPORTUNITIES FOR U.S. INVESTORS EXIST IN ALMOST  
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EVERY INDUSTRIAL SECTOR. HOWEVER, THE ISOLATION OF AFGHANISTAN FROM PORTS AND MAJOR TRADE ROUTES, THE DIFFICULTIES OF TRANSPORTATION, THE SMALL DOMESTIC MARKET, AND THE GENERAL ECONOMIC BACKWARDNESS OF THE COUNTRY LIMIT THE ATTRACTIVENESS OF THE COUNTRY TO POTENTIAL INVESTORS. THE BEST OPPORTUNITIES FOR INVESTORS ARE PROBABLY IN AGRI-BUSINESS. THE BULK OF AFGHANISTAN'S EXPORTS ARE AGRICULTURAL PRODUCTS, RAW OR SEMI-PROCESSED. EXPORT-ORIENTED AGRI-BUSINESS PROJECTS ARE ATTRACTIVE TO THE GOVERNMENT AS A MEANS OF MAXIMIZING EXPORT EARNINGS FROM AFGHANISTAN'S AGRICULTURAL PRODUCTS.  
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## Message Attributes

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